

SUBCOMMITTEE NO. 4

Agenda

Michael Machado, Chair
Tom McClintock
Christine Kehoe



HEARING OUTCOMES

Agenda – Part A

Thursday, May 18, 2006
9:30 a.m. or upon adjournment of session
Room 112

Consultant: Brian Annis

May Revision and Open Issues – Select Departments

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2400	Department of Managed Health Care	1
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2400 Department of Managed Health Care

The Department of Managed Health Care (DMHC) was heard by the Subcommittee on May 17 and the following two issues were left open.

Issues for Discussion / Vote

1. **Provider Oversight Program (BCP #1).** The Department proposes to augment funding by \$3.8 million and 17 positions to conduct financial solvency oversight of Risk Bearing Organizations (RBOs) and ensure prompt and sufficient payment of health care provider claims. The positions would staff the proposed Office of Provider Oversight, which would include a Provider Solvency Unit, a Provider Complaint Unit and an associated Provider Oversight Management Group.

Background: SB 260 (Chapter 529, Statutes of 1999, Speier), established the Financial Solvency Standards Board (Board) and placed certain financial standards on RBOs and required DMHC to adopt related regulations.

AB 1455 (Chapter 827, Statutes of 2000, Scott) established new requirements for prompt and fair payment of provider claims by health plans, and authorizes DMHC to impose sanctions on a plan when an unfair payment pattern is found.

Staff Comment: The Subcommittee heard this issue on May 17 and the Chair requested that DMHC convene a meeting with all interested stakeholders to find resolutions on the issues of establishing an independent dispute resolution process (IDRP), balance billing, and budget trailer bill language.

The DMHC did convene the meeting and summarizes the outcome as follows:

After about a 3 1/2 hour discussion, it was agreed that it was not possible to resolve balance billing and address issues surrounding an IDRP in less than 24 hours and the following agreement was reached and agreed to by everyone:

1. Trailer bill language will be dropped.
2. The DMHC will work with all stakeholders on performance metrics for the Provider Complaint Unit over the next few months.
3. All stakeholders will continue to work towards resolution on prohibiting balance billing and an IDRP.
4. All parties are supportive of the DMHC's BCP request for 6 positions to staff the Provider Complaint Unit and the DMHC's other open budget items.

Staff Recommendation: Approve the Administration's staffing request – do *not* adopt any trailer bill language. (This is the action recommended by the stakeholders who participated in May 17 meeting).

(action on next page)

Action: Approved the Staff Recommendation on a 2-0 vote with Senator McClintock absent. The Chair requested, and the DMHC Director agreed to provide, a report, which is consistent with the following:

DMHC report on Independent Dispute Resolution Process

- ***Due to the Legislature by July 1, 2006.***
- ***Provide 3 options for a pilot IDRP program.***

Shall address the following issues for each pilot:

- ***The process to be used.***
 - ***The standards to be followed in making a determination.***
 - ***Whether to be administered by DMHC or a 3rd party.***
 - ***Mandatory vs. voluntary.***
 - ***Who pays for the program.***
 - ***How to integrate a prohibition on balance billing.***
 - ***The impact of federal anti-trust law, and options for not conflicting with that.***
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2. Health Plan Oversight Division Staffing (May Finance Letter): The

Administration requests the addition of 10.0 permanent positions and 2.0 limited-term positions to be funded within existing budgeted resources. The request would continue most of the 13.0 administratively-established positions added in 2005-06. The 12.0 requested positions would increase staffing in the Health Plan Oversight Division to a total of 36.9. The Department indicates these positions are needed to continue efforts to improve the review of required health plan filing submissions in order to meet market and industry demands and to provide appropriate oversight necessary for DMHC to fulfill its statutory responsibilities.

March 8 Hearing. At the March 8 hearing the Subcommittee reduced the DMHC budget by \$1.0 million (special fund) because the Department appeared to be over-budgeted for authorized positions. The Governor's Budget display titled "Changes in Authorized Positions" indicated that 13.0 positions were administratively added to the Department's budget in 2005-06. Pursuant to Budget Control Section 31.00, the Administration does have the authority to add positions within the same fiscal year if the budgeted resources are sufficient. To continue the positions beyond a fiscal-year, departments must submit a BCP or Finance Letter request (as specified in Control Section 31.00). A full-year cost for the 13 added positions is approximately \$1.0 million. Since DMHC was able to fund 13.0 positions within existing budget resources, and the Department did not request the continuation of the positions in a BCP, it appeared that the 2006-07 budget was over-appropriated by about \$1.0 million. The Subcommittee expressed a willingness to consider a restoration of the funding, if a Finance Letter was submitted to justify the need.

Detail: The Department indicates that approval of this request would allow the department to meet the following benchmarks:

- Reduction in approval time for new license applications from over 1 year to six months or less.
- Reduction in approval time for material modifications of plan operations from over six months to 90 days or less.
- Reduction in approval time for new product filings by amendment from four months or more to under 60 days.

LAO Recommendation: The LAO recommends that one of the requested 12 positions be rejected due to lack of justification – specifically the Health Program Manager II position. This is an additional management position beyond what was administratively established in 2005-06 and the two supervisors should be sufficient.

Staff Recommendation: Consistent with the LAO recommendation, approve all requested positions except the Health Program Manager II, and restore the \$1.0 million the Subcommittee cut on March 8.

Action: *Approved the Staff Recommendation on a 2-0 vote, with Senator McClintock absent.*

2740 Department of Motor Vehicles

The Department of the Motor Vehicles (DMV) was heard by the Subcommittee on April 20. One issue was left open and two May Finance Letters were submitted by the Department.

Discussion / Vote Issues:

1. **Information Technology Modernization (Finance Letter #4).** The Administration requests 2006-07 funding of \$2.1 million (various special funds) to begin an information technology modernization project with a total cost estimated at \$242 million. While the Finance Letter is not explicit on this point, the DMV indicates that the current request would cover only year one. Expenditures beyond 2006-07 would require approval of a BCP next year for 2007-08.

Detail / Background: The DMV indicates it will take a multi-year incremental approach with “modular” progress – the intent is to migrate existing functions over to the new system over time such that some benefits are realized sooner and risk is reduced. The following are problems and solutions are noted in the FSR:

- **Limitations of the existing system:**
 - a. Obsolete technical architecture – the existing system is a 40-year-old DMV-designed system which is “increasingly complex and difficult to maintain.”
 - b. Scarce system support resources – the existing system relies on expertise in obsolete programming languages which are no longer taught in schools and language-proficient staff are nearing retirement.
 - c. Difficult for DMV to accommodate mandated changes – it will be increasingly difficult to modify the system for enhancements and mandated programs.
 - d. System limitations place California at risk – the existing system places California at risk from an inability to provide timely data to federal and state entities responsible for enforcing laws and protecting the public.
- **Proposed solution:**
 - a. Migrate user interface platforms to a centralized, Java-based, web-server architecture and migrate applications to proven industry-standard commercially-available software applications that are currently supported by the Department of Technology Services Data Center.
 - b. Incrementally upgrade the technology by identifying “logical threads,” such as: (1) vehicle registration renewals; or (2) personal identification cards; which would be converted to the new platform as individual modules. Individual modules would be completed and operational over a number of years.
 - c. The proposed solution would address the limitations of the existing system listed above.

Staff Comment: Given the magnitude of this project and the difficulties the Department has experienced with past IT projects, the Subcommittee may want to consider the following reporting language supplied by the LAO:

Provision () of Item 2740-001-0044:

(a) Funding provided in items 2740-001-0042, 2740-001-0044, and 2740-001-0064 in the amounts of \$114,000, \$1,173,000, and \$848,000 respectively, shall be made available for expenditure on the Information Technology Modernization project only if an Independent Verification and Validation (IV&V) contractor is in place before release of a Request for Proposals to review and validate the proposed contract statement of work including requirements, deliverables, and associated pay points, as well as to help develop a Contract Management Plan.

(b) Prior to project initiation, the Department of Motor Vehicles (DMV) will provide the Department of Finance (DOF) with a detailed Project Plan that reflects project phases including estimated cost per phase, phase activities, and scheduled phase duration. Over the life of the project, DMV will meet with DOF monthly to report project status. The DOF will approve the project's expenditures and progression to each subsequent phase based on its evaluation of the information reported. Regarding the project's status, at the minimum, information reported by DMV to DOF shall include: (1) Planned milestone completion dates versus actual milestone completion date; (2) Planned expenditures by phase versus actual expenditures; (3) Description of adherence to scope and reasons for any changes.

(c) By January 1 of each year until 2014, DMV shall report to the Joint Legislative Budget Committee and the policy committees on Transportation on the following concerning the Information Technology Modernization project: (1) Planned milestone completion dates versus actual milestone completion date; (2) Planned expenditures by phase versus actual expenditures; (3) Description of adherence to scope and reasons for any changes.

Staff Recommendation: Approve the request with LAO reporting language.

Action: Approved the Staff Recommendation on a 2-0 vote with Senator McClintock absent.

- 2. Real ID (May Finance Letter #1).** The Administration requests 2006-07 funding of \$18.8 million and a net decrease of 32.5 positions to begin the planning, programming, infrastructure development and associated ongoing costs necessary for implementing the federal Real ID Act (Public Law 109-13). Funding of \$8.7 million is requested for 2007-08 and \$2.5 million is requested for 2008-09. This request includes new staff to form a Real ID planning office and three information technology (IT) efforts. One of the IT projects is expected to reduce manual processing, which is the reason for the net staffing reduction:

Background / Detail: The Subcommittee held a special oversight hearing on February 23, 2006, concerning the federal Real ID Act (Act) and the changes the State will face in meeting all the federal requirements. The DMV updated the Subcommittee on Real ID efforts during the April 20 hearing. This Finance Letter would prepare the Department for implementation of Real ID by May 11, 2008, by doing the following (dollars represent 2006-07 expenditures):

- Implement a Real ID Program within DMV (\$3.8 million) that would utilize a combination of DMV staff and consultants to ensure compliance with the Act. A total of 12 new positions and related consultants would cover the functions of: (1) the Program Director's Office; (2) Program Development; (3) Community Outreach; (4) Facilities Management; and (5) Information Security.
- Implement through IT improvements the known components of Real ID (\$1.0 million): (1) Collect, capture, store, and retrieve an expanded true full name; (2) Integrate the expanded name field into DMV's technical environment; (3) Increase DMV network capabilities for increased size due to Real ID requirements that are known and/or anticipated at this time; and (4) Minimize disruption to, and protect the integrity of, existing processes and systems.
- Develop the Integration Capacity to Implement Real ID Provisions (\$1.1 million): (1) Adequately test impacted user interfaces, databases, system security and the performance of integrated system components; (2) Provide synchronization of new components to existing legacy systems; and (3) Plan and develop a foundation for a Real ID System infrastructure that will support and integrate new components.
- Establish a Web Presence that is Designed to Meet the Needs of Real ID (\$12.8 million): (1) Implement a structured web site infrastructure that provides multiple layers of security; (2) Implement an identity management solution; (3) Provide for audit ability.

Staff Comment: DMV estimates that Real ID will increase customer visits to DMV offices by 2.5 million starting in May 2008. The IT requested here is not directly related to Real ID, but would facilitate the Department's implementation of the Act by enhancing web-based services to reduce the number of non-license visits to DMV offices.

There is concern, from a legal and oversight perspective, that the Department not move forward to implement REAL ID without the enactment of authorizing policy legislation. To ensure that the Department does not implement the Act, and that the

appropriate level of legislative oversight and review continues, Staff recommends the adoption of the following budget bill language:

Proposed BBL for Item 2740-001-0044

Provisions:

1. *Of the funds appropriated in this item, \$9,383,000 shall be used only for those activities necessary to enhance the department's IT infrastructure in anticipation of increased demands on that infrastructure. These activities shall be limited to: (1) Enhancing the department's internet capacity to better serve the public, to reduce required visits to department field offices for non-drivers license-related transactions, and to securely share information with other states, (2) Upgrading IT equipment to accommodate requirements in federal law, such as the requirement for the state to collect, store, and retrieve an expanded full name field for each driver's license or identification card applicant; (3) Developing IT capacity to interface with federal, state and national databases and increasing IT security and capacity.*
2. *Of the funds appropriated in this item, \$9,383,000 shall be available for expenditure after January 1, 2007, and used only for the activities described in provision 1, after the submittal of a report to, and a thirty-day review by, the Joint Legislative Budget Committee on the expenditure of funds made available to the department under provision 1. The report shall provide a detailed description of the expenditures made, the milestones achieved by the department, and the planned expenditures from the funds made available to the department pursuant to this provision.*
3. *No later than December 15, 2006, the department shall submit to the Joint Legislative Budget Committee and the transportation policy committees of the state Assembly and state Senate, a summary of the published federal regulations for the implementation of the federal REAL ID Act. The summary shall include: (1) A description of the federal regulations and the requirements and anticipated costs such regulations place on the state and the department; (2) A description and timeline for the necessary steps the department will need to take to implement the federal regulations, including an identification of necessary operational, regulatory and statutory changes the department will seek to comply with federal law; and (3) A description of the requirements the federal regulations place on individuals who seek to obtain or renew a driver's license or identification card issued by the department.*

Staff Recommendation: Approve the requested level of funding and positions, but also add the suggested budget bill language to ensure that the Department does not implement the Act, and that the appropriate level of legislative oversight and review continues.

Action: Approved the Staff Recommendation on a 2-0 vote with Senator McClintock absent.

- 3. Enterprise-Wide Oversight Consultant Plan (May Finance Letter #2).** The Administration requests 2006-07 funding of \$1.3 million and funding of \$1.1 million in each of 2007-08 and 2008-09 for the procurement of an Enterprise-Wide Oversight Consultant (EWOC) vendor to provide oversight services during the next three fiscal years. The purpose of the EWOC is to oversee a portfolio of key DMV technology projects and ensure executive level control through assessment of project progress. The DMV is already approved for, or is requesting approval of, eight information technology projects with a criticality level of medium or high.

Staff Comment: One of the stated responsibilities of EWOC would be to “Report findings regularly to the Department, the Business, Transportation, and Housing Agency and the Department of Finance. In addition, report findings to the State Chief Information Officer, State Information Security Officer, and the Office of Privacy Protection, as needed.” The Subcommittee may want to consider budget bill language to require EWOC report to also be provided to the LAO.

Staff Recommendation: Approve the request, but also adopt the following budget bill language:

Provision () of Item 2740-001-0044: Funding provided in items 2740-001-0042, 2740-001-0044, and 2740-001-0064 in the amounts of \$69,000, \$708,000, and \$511,000 respectively, shall be made available for expenditure for the procurement of an Enterprise-Wide Oversight Consultant to provide oversight services for major information technology projects, including oversight of projects that would enable the Department of Motor Vehicles to implement the federal Real ID Act. The Enterprise-Wide Oversight Consultant shall report findings regularly to the Department of Motor Vehicles, the Business, Transportation, and Housing Agency, and the Legislative Analyst.

Action: Approved the Staff Recommendation on a 2-0 vote with Senator McClintock absent – with a change to substitute “Joint Legislative Budget Committee” for “Legislative Analyst” in the budget bill language.